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SUBJECT: TURKISH EXPECTATIONS FOR LONDON SUMMIT

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11. (C) Summary: In recent meetings, MFA and Treasury contacts outlined GOT expectations for the London Summit and their priorities in the G-20 working group process. In their view, the success of the Summit hinges on whether public and market confidence increases as a result. They foresee a lot of difficult work ahead in winnowing the huge number of issues being discussed in the working groups down to something that leaders can announce in London in a manner that the public will understand. International cooperation is the most important issue to be addressed. In Working Group 1, the GOT wants to see greater accountability and transparency from credit rating agencies. In Group 2, they want to see an expanded Financial Stability Forum membership that includes all the key emerging market economies (including Turkey). In Group 3, they want to see greater attention to reforming the IMF's income model and surcharge system. In Group 4, they will insist that multilateral development banks (MDBs) maintain their focus on middle income countries in any reform. End summary.

12. (C) In March 2 meetings, Treasury U/S Ibrahim Canakci and MFA DDG for Multilateral Economic Affairs Serap Ozcuksun (deputy to GOT Sherpa Kuneralp) gave Econcouns GOT views on the upcoming London Summit and the G-20 working group process. While the GOT is participating actively in all four working groups, they are focusing most attention on Groups 3 (IMF Reform) and 4 (MDB Reform). They have reviewed five country papers submitted thus far (US, Russian, Australian, Korean and Chinese) and are likely to submit one of their own (focus not specified) later in March. They expect problems to arise because some G-20 members are not members of all international organizations that will provide analysis, data or reporting to the working groups. Ozcuksun noted that Russia is likely to object to proposed WTO reporting on trade because it is not a WTO member, while China may not agree to use of OECD economic analysis.

Specific Priorities in the Working Groups

13. (C) Group 1 (Enhancing Regulation/Supervision) : In this group, the GOT wants more attention on the failures of credit rating agencies that they believe materially contributed to the crisis, and they will push for more rating agency accountability and transparency (Note: GOT criticism of rating agencies is not new. Treasury Minister Simsek said one of his major conclusions from the Washington Summit was that the credit rating agencies had completely failed to do their job in the lead up to the crisis. End note.)

¶4. (C) Group 2 (International Cooperation): In this group, the GOT wants to see membership in the Financial Stability Forum (FSF) expanded, and to see cooperation and coordination between the FSF and the IMF. FSF membership needs to be allocated on a rational basis, not on geography. "It is not sensible to include South Africa and not Turkey if you look at size and importance of the economy and financial system," said Canakci. The GOT would be happy to see FSF membership expanded to all the G-20 but, at a minimum, believes the major emerging market countries (including Turkey) must be included. Turkey also wants to see flexibility for emerging market economies both in the design of new standards and in their implementation. In particular, they believe a transition period for emerging markets to adapt new standards is a necessity.

¶5. (C) Group 3 (IMF Reform): Turkey is "mostly satisfied" thus far with the recommendations on IMF governance and organizational changes. As one of the IMF's major borrowers, however, Turkey wants to see more attention paid to reforming the IMF's income model, under which borrowers pay most of the Fund's operating costs. Canakci noted that in 2007, Turkey had been the sole borrower from the Fund, and therefore knows very well the shortcomings of this model. Changes to the model, Canakci said, "need to balance moral hazard against being fair." The surcharge system also should be reviewed.

¶6. (C) Group 4: (Multilateral Development Banks): Ozcuksun said there were two competing views on IMF and MDB reform. One group (including Turkey), sees IMF reform as vital and believes it should go forward on its own. The other group wants to do both IMF and MDB reform at the same time. Turkey, however, does not see any critical issues at the MDBs that need to be addressed immediately. In any MDB reform, Turkey's bottom line will be that the MDBs must maintain their focus on middle-income countries. While acknowledging the needs of lesser developed countries, Canakci said 70% of the world's poor people reside in middle income countries, and the MDBs must have adequate resources to work with both groups.

Expectations for London Summit

¶7. (C) Both MFA and Treasury emphasized the need for substantive announcements at London. In Washington, it was enough to announce agreement on general principles. Now, the G-20 needs to pick out and highlight key messages. The GOT sees international cooperation as the most important issue to be addressed at the Summit. In their view, lack of coordination -- combined with less than full enforcement of financial rules and regulations -- caused the crisis, and coordinated action is needed to get the global economy moving again. The Summit declaration will have to be carefully designed. The public expects real, substantive announcements from the Summit, e.g., "the IMF will be reformed in this manner and by this date," or "MDBs will be re-capitalized with \$X billion." The success of the Summit will hinge on whether public and market confidence increases as a result.

¶8. (C) They also foresee a lot of difficult work ahead in winnowing the huge number of issues being discussed in the working groups down to something that leaders can announce in London in a manner that the public will understand. The working group reports are far too technical and detailed and cannot be explained to ordinary people. Even Canakci, a former bank regulator with 30 years of experience in financial affairs and widely seen as one of the most knowledgeable people in the Turkish financial bureaucracy, said he had difficulty understanding some of the working group reports.

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Jeffrey